

OFFICE OF THE INSPECTOR GENERAL OF THE DEPARTMENT OF DEFENSE

SUMMARY OF REPORTS ISSUED AND PARTICIPATION ON MANAGEMENT ADVISORY TEAMS AND SPECIAL AUDIT/EVALUATION EFFORTS

APRIL, MAY, AND JUNE 2003



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PART I

REPORT SUMMARIES

ACQUISITION PROGRAM

REPORT NO. D-2003-077. Cooperative Agreements Supporting the Mentor Protégé Program. The report discusses the inappropriate use of cooperative agreements and Mentor Protégé Program funds. The DoD Mentor Protégé Program receives approximately \$31 million annually from Congress. The Director, Office of the Secretary of Defense Small and Disadvantaged Business Utilization (OSD[SADBU]) requested that we audit two cooperative agreements entered into under the Mentor Protégé Program to determine whether work was performed as specified and whether the work provided value to the Government.

The DoD Mentor Protégé Program was not properly managed. The U.S. Army Medical Research Acquisition Activity disregarded applicable regulations in awarding cooperative agreements in support of OSD(SADBU) when competitive contracts would have been the correct contract instruments. The cooperative agreements did not contain statements of work with specific performance standards, but rather provided general tasks for the support of historically black colleges and universities and minority institutions. Therefore, there were inadequate means to determine if OSD(SADBU) obtained the services and performance levels it intended to receive. However, we did determine that the work performed did not relate to the Mentor Protégé Program. In addition, the U.S. Army Medical Research Acquisition Activity and OSD(SADBU) did not exercise sound business practices in administering or overseeing the cooperative agreements. Further, OSD(SADBU) inappropriately used Mentor Protégé Program funds.

As a result, potential Antideficiency Act violations may have occurred. Further, an assessment of any benefits derived from the monies spent could not be made. The U.S. Army Medical Research and Materiel Command needs to review all active cooperative agreements to identify any other inappropriate agreements and terminate them and negotiate contracts at the next available option period. Officials should initiate appropriate administrative action against U.S. Army Medical Research Acquisition Activity personnel responsible for the approval, award, and administration of the two cooperative agreements. A command instruction addressing cooperative agreement preparation at the U.S. Army Medical Research Acquisition Activity would help ensure similar problems do not reoccur. In addition, the Office of the Under Secretary of Defense (Comptroller) must initiate a preliminary review of potential Antideficiency Act violations. An operating budget should be developed for OSD(SADBU).

Both the U.S. Army Medical Research Acquisition Activity and OSD(SADBU) need to ensure that management controls exist so that program budgeting and contracting processes are performed correctly.

REPORT NO. D-2003-083. Acquisition of the Suite of Integrated Radio Frequency Countermeasures. This report discusses acquisition issues that must be addressed before the Suite of Integrated Radio Frequency Countermeasures (SIRFC) program progresses further through the acquisition process.

Overall, the SIRFC program needs improved management controls in the areas of program management, key performance parameters, and test and evaluation before it enters the full-rate production phase of the acquisition process.

- o Roles and responsibilities for day-to-day management of the SIRFC program were unresolved because of Army and United States Special Operations Command (USSOCOM) indecision concerning which organization would manage the program. As a result, neither the Army nor USSOCOM had updated the operational requirements document; the command, control, communications, computers, and intelligence support plan; the test and evaluation master plan; and the program protection plan—key documents that are needed to effectively manage the program.

- o The Army Aviation Center did not include any key performance parameters in the operational requirements document for the SIRFC. As a result, program decision makers do not have criteria needed to make informed decisions concerning continuation of the program at program reviews and user requirements are at greater risk of not being met.

- o The Program Executive Officer, Intelligence, Electronic Warfare, and Sensors authorized the SIRFC program to enter low-rate initial production even though the Army Test and Evaluation Command concluded that the system, as designed, was not sufficiently mature to be considered operationally effective, suitable, and survivable. As a result, USSOCOM contracted to procure seven SIRFC systems at an estimated cost of \$19.6 million without assurance that they can successfully pass planned operational tests before the full-rate production decision review.

REPORT NO. D-2003-087. Acquisition Management of the RAH-66 Comanche. The report discusses the action the Army took to restructure, reorganize, and improve the program and reduce the level of program risk.

The Army took constructive actions to improve management, oversight, and performance of the Comanche Program acquisition. The Army restructure provided additional funding for the Engineering and Manufacturing Development Phase, incorporated the Block acquisition strategy, extended the schedule for Comanche aircraft development, and added all component qualification testing. The Comanche Project Office and the Contractor Program Office initiated action to reorganize and streamline the program management structure and

integrated product teams, which minimized duplication of effort and improved communication, accountability, and authority. In addition, studies to improve the efficiency of the production lines were conducted.

Constructive actions have been taken to restructure, reorganize, and improve the program and to reduce the level of program risk. However, continued emphasis is needed to ensure that technical and system integration issues will not arise that could result in future breaches of program cost, schedule, and performance measures. We did not test management controls because data related to program performance after the Restructure Course of Action did not exist at the time fieldwork was conducted.

REPORT NO. D-2003-089. Allegations of Impropriety in the Selection Process at the Office of the Director, Defense Research and Engineering. This report contains information about the selection process used by the High Performance Computing Modernization Office to award funding to application software development projects. The Deputy Under Secretary of Defense (Science and Technology) requested that we evaluate allegations in a letter that discussed potential conflict of interest in evaluating and selecting software projects that will be funded by the High Performance Computing Modernization Office. A second, anonymous letter that contained similar allegations was sent to the Department of Defense Hotline. This report addresses the allegations in both letters.

The audit did not substantiate the allegations that conflicts of interest led to inappropriate evaluations and selections by the High Performance Computing Modernization Office of software development projects to fund. However, confusion caused by the lack of a written policy on evaluation procedures contributed to inconsistent interpretations by the different Military Department members of the selection panel. Written policy is needed that provides clear selection criteria. In addition, issues to be addressed should include: that technical evaluators should be government employees, Service members should rank only their own proposals, and persons whose organizations have a vested interest in the selection should recuse themselves from providing even informal ratings.

REPORT NO. D-2003-097. Diamond Jewelry Procurement Practices at the Army and Air Force Exchange Service. This report discusses procurement practices for diamond solitaire rings. Senator Thad Cochran requested the audit asking for verification of full-and-open competition on a solicitation for diamond solitaire rings (Army and Air Force Exchange Service (AAFES) Solicitation No. SD-99-016-02-001) and that we report any cases where proposals were not given full consideration. Senator Cochran was concerned about possible exclusionary procurement practices relating to a current procurement of rings.

The AAFES solicitation was processed in accordance with AAFES procurement policies and was intended to be a competitive award. Only 5 of the 15 prospective vendors responded to the solicitation. However, none of the five vendors included three samples of each item as required in the solicitation. As a result, the AAFES contracting officer canceled the solicitation on November 6, 2002, for lack of responsive vendors and reissued the

solicitation on February 7, 2003, with a lesser sample requirement. The audit did not find any exclusionary or unfair procurement practices by AAFES against any vendor during the solicitation process for the procurement of diamond solitaire rings.

REPORT NO. D-2003-106. Administration of Performance-Based Payments Made to Defense Contractors. This report assesses the challenges DoD personnel faced in implementing the use of performance-based payments to acquire supplies and services on fixed-price contracts. Performance-based payments allow DoD to pay the contractor based upon demonstrated performance rather than incurred costs.

DoD did not adequately administer contracts with approximately \$5.5 billion of performance-based payments. Specifically, 43 of 67 contracts reviewed with performance-based payments had poorly defined event schedules, which allowed for payments for contract award and advance payment; lacked performance criteria; or did not document event dependence. Event dependence requires a determination of whether events are dependent upon the completion of other events before receiving payment. As a result of inadequate performance-based payments administration, \$4.1 billion (including a possible \$900 million in accelerated payments) of the \$5.5 billion in performance-based payments lacked adequate documentation to ensure the payments were for demonstrated performance. The Under Secretary of Defense for Acquisition, Technology, and Logistics needs to: establish performance measures to assess the benefits of using performance-based payments; issue mandatory guidance to ensure that DoD goals for performance-based payments are attained; and require procuring contracting officers to obtain, document, and use input from Defense Contract Management Agency and Defense Contract Audit Agency personnel to ensure payments are commensurate with performance.

REPORT NO. D-2003-109. Summary Report on the Joint Review of Selected DoD Purchase Card Transactions. This report cites examples of potentially inappropriate and fraudulent use of purchase cards by DoD cardholders. The potentially inappropriate and fraudulent use was detected using data mining techniques, which support data mining as a control mechanism of identifying purchase card transactions with a higher probability of being fraudulent, wasteful, or abusive. This report addresses the requirement in section 1007 of the National Defense Authorization Act for FY 2003 that the Inspector General of the Department of Defense perform periodic audits of purchase card use.

The Services and the Defense agencies performed an in-depth review of purchase card transactions for 1,357 purchase cardholders identified through data mining techniques and determined that 182 cardholders potentially used their purchase cards inappropriately or fraudulently. As a result, the 182 cardholders expended about \$5 million in scarce resources on potentially fraudulent and inappropriate transactions. To assist program officials in identifying potentially inappropriate and fraudulent transactions in a more timely manner, data mining techniques should be used as a regular internal control. By implementing data mining tools, purchase card program officials will be better able to perform their oversight responsibilities, take appropriate corrective action in a timely manner, and perform the followup necessary for ensuring that corrective action taken is appropriate and sufficient.

In an effort to address deficiencies in the purchase card program, the Under Secretary of Defense (Comptroller)/Chief Financial Officer established, in March 2002, a Government Charge Card Task Force that would assess the DoD purchase and travel card programs and make recommendations for improvements. Subsequently, the Under Secretary of Defense for Acquisition, Technology, and Logistics established the DoD Charge Card Special Focus Group to achieve a balance between streamlining business processes and proper charge card use. An Integrated Product Team supports the Special Focus Group and is responsible for resolving policy and process issues related to implementation of the recommendations in the DoD Charge Card Task Force Final Report. Implementation of the recommendations in the DoD Charge Card Task Force Final Report should assist in reducing the number of questionable purchase card transactions discussed in this report.

The DoD Purchase Card Program Office, along with the Navy, also initiated actions that will strengthen internal controls by increasing the tools available to DoD managers. Those actions include data mining techniques designed to detect potentially inappropriate and fraudulent transactions. Specifically, the Navy initiated action to establish an automated and standardized process for reviewing high-risk purchase card transactions. Based on the actions DoD management has initiated or taken, this report makes no recommendation for corrective action. With the use of data mining and other management actions, the integrity of the purchase card program along with confidence in DoD to spend money prudently is improved.

CONSTRUCTION AND INSTALLATION SUPPORT

REPORT NO. D-2003-104. Department of Defense Policies and Procedures to Implement the Rural Development Act of 1972. The report discusses statutory requirements for giving first priority to the location of new offices and other facilities in rural areas. The audit was conducted in response to Public Law 108-7, "Consolidated Appropriations Resolution FY 2003," February 20, 2003, which states: Not later than 6 months after the date of enactment of this Act, the Inspector General of each applicable department or agency shall submit to the Committee on Appropriations a report detailing what policies and procedures are in place for each department or agency to give first priority to the location of new offices and other facilities in rural areas, as directed by the Rural Development Act of 1972 (the Act).

DoD had established policies for implementing the requirements of the Act; however, with the exception of the Air Force, DoD had not established procedures that would specifically give first priority to the location of new offices and other facilities in rural areas. As a result, rural areas may be overlooked during the relocation of new offices and other facilities. Army and Navy regulations governing real property acquisition were under revision and included draft procedures for implementing Act requirements. Revising DoD regulations to specifically reflect the requirements of the Act will result in additional assurance that DoD

meets the intent of the Act. We did not review the management control program as it related to the overall objective because of time constraints associated with submitting the report within the congressionally mandated 6-month time frame.

CONTRACTING OVERSIGHT

REPORT NO. D-2003-090. Use and Control of Military Interdepartmental Purchase Requests at the Air Force Pentagon Communications Agency. This report discusses the need to develop and implement adequate procedures for processing and managing military interdepartmental purchase requests (MIPRs). During FY 2001, the Air Force Pentagon Communications Agency (the Agency) issued 87 MIPRs, valued at about 412.9 million, to General Services Administration. We reviewed 36 MIPRs valued at about \$9.5 million.

The Agency did not comply with the Defense Federal Acquisition Regulation (DFAR) Supplement and did not have adequate policies and procedures for processing and funding MIPRs. The audit showed a lack of defined requirements for 8 MIPRs valued at about \$1.7 million; 5 MIPRs valued at about \$1.9 million that had no support for the cost basis of the MIPR; and 31 MIPRs valued at about \$8 million that did not specify the period of performance for the services or equipment being acquired. Also, the Agency had either inadequate or no interagency support agreements in effect with GSA offices. Further, the Agency officials did not adequately document triannual reviews of Agency unliquidated obligations that involved MIPRs. As a result, the Agency did not effectively manage its funds relating to MIPRs and funds available for other missions and needs may have been lost. The Commander, Air Force Pentagon Communications Agency should comply with DFAR Supplement guidance and implement management control procedures that specifically identify the method for identifying agency documentation used to support a MIPR. Compliance with guidance will preclude issuance of MIPRs without support of statements of work, cost estimates, and other planning documents. Also, the Agency should comply with Financial Management Regulation guidance on triannual reviews and maintain written justification support for validity decisions on triannual review outstanding unliquidated obligations. The justification will ensure the basis for the validity decisions are available for management or an independent review.

The Agency inappropriately used about \$1.7 million in operations and maintenance funds rather than procurement funds when purchasing information technology. As a result, the Air Force Pentagon Communications Agency may have incurred potential Antideficiency Act violations. To ensure proper use of appropriated funds, the Commander, Air Force Pentagon Communications Agency should conduct a preliminary review of the three potential Antideficiency Act violations. If violations of the Act are confirmed, the Commander should comply with the reporting requirements in DoD Financial Management Regulation 7000.14-R, volume 14, "Administrative Control of Funds and Antideficiency Act violations."

REPORT NO. D-2003-103. Status of Extended Pilot Program on Sales of Manufactured Articles and Services at Army Industrial Facilities. This report discusses the importance of maintaining data sufficient for proper assessment of the effectiveness of the Extended Pilot Program on Sales of Manufactured Articles and Services at Army Industrial Facilities (Pilot Program). The three Army industrial facilities participating under the Pilot Program are McAlester Army Ammunition Plant, Oklahoma; Rock Island Arsenal, Illinois; and Watervliet Arsenal, New York. From Pilot Program inception in FY 1998 through the end of FY 2000, the three facilities issued 12 contracts and 1 order, with a cumulative value of about \$6 million.

We believe the Pilot Program should continue because the program has increased opportunities for Army industrial facilities to form working relationships with commercial concerns. From October 2000 through November 2002, \$16.9 million in contract actions was awarded under the Pilot Program with little interest shown by commercial concerns. Based on our interviews with Army industrial facility personnel and our prior reports, the requirements that contractors pay before receiving articles and services and that Army industrial facilities charge full costs, as well as the high overhead rates of the Army industrial facilities, have hindered the success of the program. Hourly overhead rates have, with one exception, decreased since FY 2001 as a result of the Arsenal Support Programs Initiative and other private-public partnership arrangements. We did not identify either any opportunities or detriments to small business as a result of the waiver.

The effectiveness of the Pilot Program should improve if the Army develops metrics and goals that measure achievements of the program. Also, the Army should increase monitoring efforts of the bids submitted and contracts awarded under the Pilot Program. Additionally, the Army should examine the cost-cutting measures used at Anniston Army Depot, Alabama, as well as measures used at other facilities and implement the measures where appropriate. The Army should also increase awareness of the Pilot Program to increase workload at the three Army industrial facilities.

REPORT NO. D-2003-113. Franchise Business Activity Contracts for Medical Services. The report discusses the issue of acquiring medical services through the Department of Treasury, Franchise Business Activity (FBA) contracts. The FBA provides a contractual method used by the military health system to fill medical service requirements. The FBA informed us that DoD spent about \$19.1 million in FY 2002 on direct provider medical services such as doctors, nurses, and others working directly with beneficiaries.

According to FBA, in FY 2002, 19 DoD medical facilities acquired medical services using FBA contracts. The use of FBA contracts to acquire medical services may not be in the best interest of DoD medical facilities. We questioned: whether DoD medical facilities should use FBA authority to acquire financial and administrative support services as a means to acquire medical services, and why DoD would acquire medical services through FBA contracts, considering that it has extensive medical service contracting capabilities of its own.

Also, the scope of work for one contract was so broad that medical contractors with lower-priced bids were considered technically inferior and not selected partly because prior experience was only in medically related labor categories. DoD may also be incurring

unnecessary costs through surcharge fees ranging from \$0.38 million to \$1.9 million (for FY 2002). Further, according to the Navy, contracting for medical services through FBA may expose the Government to unnecessary risk through potentially illegal and unenforceable contracts. The Assistant Secretary of Defense (Health Affairs) should determine whether it is appropriate for the military health system to use FBA to acquire medical services. If determined to be appropriate, the Assistant Secretary should issue guidance on the use of FBA contracts.

REPORT NO. D-2003-115. Allegations Concerning the Administration of Contracts for Electronic Flight Instruments on the C-130H Aircraft. This is one in a series of reports that discusses allegations made to the Defense Hotline concerning management oversight of the contractor's performance on the C-130, F-22, and C-5 aircraft. This audit is in response to an allegation referred to the Defense Hotline concerning the Air Force C-130H aircraft which is responsible for airlifting troops and equipment into hostile areas. The allegation states that the Defense Contract Management Agency (DCMA) administration of contracts for the Electronic Flight Instruments (EFI) on the C-130H aircraft was inadequate. Specifically, the complainant alleges that agency officials did not issue a Level III Corrective Action Request to address problems with Lockheed Martin's oversight of its subcontractor and its inability to identify and resolve problems associated with the EFI.

Contract administration and logistics planning for EFI on the C-130H was inadequate from 1994 to 2000, but program officials identified a solution to the EFI problems in October 2000. We substantiated that DCMA contract administration for the EFI on the C-130H was inadequate. We did not substantiate that the draft Corrective Action Request delayed the resolution of the EFI issue. We partially substantiated that inadequate oversight of the subcontractor's repair process led to poor EFI performance. Lack of DCMA and Program Office action allowed EFI performance problems to continue. Although program management officials identified and implemented a solution for the poor performance of the EFI, lack of adequate logistics management and oversight of the prime contractor's operations led to more than 1,100 EFI failures and grounding of 16 C-130H aircraft. Completing a purchasing system review, preparing a surveillance plan focusing on subcontracting and the quality of subcontractor parts at Lockheed Martin Aeronautical Systems, and issuing local procedures for using a draft Corrective Action Request will improve the oversight of the contractor's operations. Improvements in logistics management should also include a requirement for Lockheed Martin Aeronautical Systems to resolve the lack of supply availability in the Interim Contractor Support contract and develop an acquisition strategy addressing logistics support for the new EFI.

ENVIRONMENT

REPORT NO. D-2003-081. DoD Explosives Safety Program Oversight. This report discusses program weaknesses associated with inadequate planning and oversight and the need to restructure the DoD oversight board so it will become more effective in identifying and minimizing risks associated with explosives safety hazards.

The DoD Explosives Safety Board (DDESB) did not adequately oversee the DoD Explosives Safety Program. DDESB limited the scope of its responsibility; did not keep fully informed on explosives safety problems within the DoD Components; and did not regularly advise or report explosives safety issues to the Secretary of Defense, the Secretaries of the Military Departments, and the DoD Components. As a result, DoD had not evaluated the overall program performance of explosives safety. In addition, explosives safety problems, weaknesses, and lessons learned were not identified for determining high-risk issues and best practices. Furthermore, DoD cannot ensure the continuous program improvement and risk mitigation necessary for effective management of explosives safety. Revisions to DoD Directive 6055.9, "DoD Explosives Safety Board and DoD Component Explosives Safety Responsibilities," are necessary to accurately reflect the DDESB authority required for executing oversight functions and responsibilities for explosives safety. Developing a safety management strategy requiring a comprehensive explosives safety program that outlines and clarifies program goals and objectives, identifies essential elements for DoD Component implementation, and includes performance metrics should bring the oversight and improvement needed for this important program.

FINANCE AND ACCOUNTING

REPORT NO. D-2003-079. Promptness of FY 2003 Third Quarter DoD Payments to the Department of the Treasury for District of Columbia Water and Sewer Services. The audit was conducted in response to Public Law 106-554, the Consolidated Appropriations Act of 2001. The Act requires the inspector general of each Federal agency that receives water and sewer services from the District of Columbia to report to the Congressional Appropriations Committees on the promptness of payments within 15 days of the start of each quarter.

DoD Components promptly made third quarter FY 2003 payments totaling \$530,000 to the Department of the Treasury for District of Columbia water and sewer services. Walter Reed Army Medical Center and the National Imagery and Mapping Agency were the only DoD Components required to pay this quarter. Washington Headquarters Services, Arlington

National Cemetery, Fort McNair, the Navy, and Bolling Air Force Base have credit balances because of excessive charges in prior years and were not required to make quarterly payments for the FY 2003 third quarter.

REPORT NO. D-2003-082. Joint Operation Planning and Execution System Funding.

This report discusses policies and procedures that govern the Global Command and Control System (GCCS) which is used in planning and executing worldwide joint military operations. The Joint Operation Planning and Execution System (JOPES) is a GCCS component system used to plan and execute joint deployments. JOPES Classic supports the deployment process, and JOPES 21 is the proposed system designed to improve support to the JOPES user community.

The Defense Information Systems Agency (DISA) inappropriately spent about \$28.4 million of Operation and Maintenance funds, rather than Research, Development, Test, and Evaluation (RDT&E) funds, to develop JOPES 21 from FY 1998 through FY 2002. As a result, an Antideficiency Act violation may have occurred. The Under Secretary of Defense (Comptroller)/Chief Financial Officer needs to investigate whether the use of Operation and Maintenance funds was an Antideficiency Act violation.

According to DISA management officials, starting with the FY 2003 budget, RDT&E funds are being applied to JOPES 21 contract actions. The Under Secretary of Defense (Comptroller)/Chief Financial Officer stated that his office reviewed the facts presented and determined that there was no violation of the Antideficiency Act.

REPORT NO. D-2003-084. Ordnance Accountability at Fleet Combat Training Center

Atlantic. The report discusses controls over ordnance inventory that are necessary for accurate reporting of financial, logistical, and operational data.

A review of 20 Fleet Combat Training Center Atlantic (Center) ordnance inventory records, found 13 to be inaccurate. This occurred because personnel at the Center did not perform annual physical inventories, magazine-to-record reviews, and periodic record-to-record reconciliation. As a result, Center ordnance data reported as part of the Navy financial statements and in logistic and operational systems databases were unreliable. To correct the reported problems the Commander, Fleet Combat Training Center Atlantic should request that the Naval Ammunition Logistics Center personnel perform an Ammunition Management Accountability Review to ensure that inventory accountability policies are met. The Commander should also conduct physical inventories, perform magazine-to-record location surveys, and conduct periodic reconciliation of local property records to the Navy master property record.

REPORT NO. D-2003-094. Allegation Concerning Financial Management at the Civilian Personnel Management Service. This audit is in response to an allegation made to the DoD Hotline concerning funds management for the Defense Leadership and Management Program.

Managed by the Defense Civilian Personnel Service, the Program is a DoD-wide education and training program that prepares mid- and senior-level employees for upward mobility into targeted executive positions.

The Civilian Personnel Management Service appropriately administered funds allocated for the Program. The audit did not substantiate the allegation that: approximately \$15 million was siphoned from the Program or other programs to fund overruns in the Defense Civilian Personnel Data System-Modernization program; funds were transferred in violation of DoD reprogramming rules and without congressional knowledge, at the direction of the Director, Civilian Personnel Management Service; the Program had not received the funds appropriated by Congress; and the Civilian Personnel Management Service provided incorrect information in response to a GAO inquiry on the use of Program funds.

REPORT NO. D-2003-095. Accounting for Reimbursable Work Orders at Defense Finance and Accounting Service Charleston. This report discusses how to prevent and correct negative account balances, over obligations, and over expenses for reimbursable work orders.

The Defense Finance and Accounting Service (DFAS) Charleston July 31, 2001, accounts receivable balance included 706 negative balances totaling \$73.4 million. The negative \$73.4 million reduced the net balance of accounts receivable to \$85.4 million. As a result, the accounts receivable, unearned revenue, and expense balances were not properly stated in the trial balances that DFAS Charleston submitted to DFAS Cleveland. This ultimately impacted assets and liabilities on the Navy General Fund monthly departmental reports and year-end financial statements. The DFAS Charleston July 31, 2001, unearned revenue balance included 315 segment-level negative balances totaling \$9 million. The negative \$9 million reduced the net balance of unearned revenue to \$3.1 million. As a result, the unearned revenue balances were not properly stated in the trial balances that DFAS Charleston submitted to DFAS Cleveland. The negative balances ultimately impacted liabilities on the Navy General Fund monthly departmental reports and year-end balance sheet.

Reimbursable work orders were obligated and expensed beyond the funding authorized in the reimbursable work orders agreement. As a result, unauthorized and uncollectible accounts receivable balances were on the trial balances that DFAS Charleston submitted to DFAS Cleveland. This ultimately overstates assets and income on the Navy General Fund monthly departmental reports and year-end financial statements.

INFORMATION TECHNOLOGY RESOURCES

REPORT NO. D-2003-075. Transition From the Automatic Digital Network to the Defense Message System. This report addresses Defense Message System (DMS) user requirements and intelligence community directory security. In January 2002, the House

Subcommittee on Military Readiness, Committee on Armed Services requested that we provide an update to IG DoD Report No. 98-150, "Readiness of the Defense Message System to Replace the Automatic Digital Network." Specifically, the audit was to review and evaluate the development, fielding, and cost of DMS.

Although DMS Release 2.2 did not meet all user and security requirements, DMS Release 3.0 and proposed alternatives to meet intelligence community requirements should satisfy all Multicommand Required Operational Capability and security requirements. Although DMS Release 3.0 should satisfy all Multicommand Required Operational Capability requirements, DMS Release 2.2 did not meet all user requirements, such as message delivery, non-delivery notices, and directory information, and was not widely used. Because of inadequate guidance and oversight, DMS implementation was not on schedule and planned savings of \$453 million had not been realized. However, in order to move forward, DMS Release 3.0 should be allowed to operate, and given appropriate support, for a reasonable amount of time to determine whether it can meet user requirements. If DMS does not meet user requirements, then a survey should be conducted and a working group established to develop a solution to satisfy user requirements.

DMS Release 3.0 does not satisfy intelligence community requirements for directory security. As a result, the intelligence community may not have a secure permanent messaging system available to meet its requirements by the DMS Transition Hub closure date of September 30, 2003. The Defense Information Systems Agency and the intelligence community have agreed on a solution to address the directory security requirements.

REPORT NO. D-2003-078. Global Command and Control System Joint Operation Planning and Execution System. The report discusses the development and fielding of the Joint Operation Planning and Execution System (JOPES).

The Defense Information Systems Agency (DISA) and the Joint Staff have been unable to meet fielding milestones for JOPES 21 and will not field the component until March 2004. As of October 2002, the proposed fielding date has slipped 46 months. Further, if fielded as planned in 2004, the operating system supporting JOPES 21 will be two software generations out of date. As a result, DISA spent about \$28.4 million to develop JOPES 21 from April 1998 through July 2002 without fielding an automated system that meets user requirements. The Global Command and Control System (GCCS) program manager needs to develop essential acquisition documents for improved oversight of JOPES, to include a contracting strategy to address high-risk development, an acquisition program baseline to help monitor progress in meeting user requirements within resource constraints, and an integrated logistic support plan to address projected software obsolescence. The Director for Operations (J-3), Joint Staff should ensure the GCCS requirements documents accurately reflect current determinations as to necessary requirements, to include adding the requirements for a deployable JOPES 21 database.

REPORT NO. D-2003-110. Defense Civilian Personnel Data System Functionality and User Satisfaction. The report provides information regarding the Defense Civilian Personnel Data System (DCPDS) used to process civilian personnel actions.

DoD achieved standardization of basic civilian personnel processing and reduced its personnel staffing levels by implementing regionalization and modernizing its systems. However, the Military Departments, the National Guard Bureau, and Defense organizations did not fully use the capabilities of DCPDS and most added or planned to add nonstandard applications to the system to support their business practices. DCPDS users also had to perform numerous workarounds and received frequent software patches to make the system work. As a result, DoD did not fully achieve its desired goals for system standardization and for increased performance efficiencies through the implementation of DCPDS. Issuance of policy that clearly outlines the roles and responsibilities of the Civilian Personnel Management Service and the DCPDS users, in coordination with a comprehensive systems improvement plan, including a user survey, should improve the functionality of the system, reduce reliance on nonstandard applications, increase system standardization, and improve productivity.

To better manage the proliferation of nonstandard applications in use or planned, the Civilian Personnel Management Service established the Systems Innovation Subcommittee to review all nonstandard applications and determine which should be considered for DoD-wide implementation. For example, in February 2003, the Civilian Personnel Management Service awarded a contract for an electronic official personnel folder application for DoD-wide implementation. To provide information on processing personnel actions, workarounds, and software patches, the Army Civilian Personnel Operations Center Management Agency developed an Internet site that provides excellent information for all users of the system, worldwide.

LOGISTICS

REPORT NO. D-2003-085. International DoD Air Freight Tenders. The report discusses the benefits of standardizing international air freight tenders, which are used for transporting DoD freight.

Our review of 12 of 76 international DoD air freight tenders revealed that transportation officers did not have the necessary tools to perform a best value analysis of air tenders before selecting carriers to transport air freight. DoD also lacked adequate visibility over the usage of international air freight tenders. Air Mobility Command could provide tools and increase visibility by prioritizing the establishment of standard rules for international air freight tenders, posting information to a Web site, and incorporating additional information on both domestic and international tenders in the new transportation routing system. Standardizing the international air tenders could also help DoD avoid unnecessary transportation and other costs. In addition, by improving the international tender review process, Air Mobility Command could ensure that international air freight tenders are from qualified carriers and do not compete with mandatory transportation services. Further, DoD could more fully implement a single automated billing and payment process and achieve the expected benefits of DoD Management Reform Memorandum No. 15 if Air Mobility

Command required carriers to use PowerTrack for international air tenders to the maximum extent possible. Improving controls will correct the material management control weaknesses identified.

REPORT NO. D-2003-098. Followup Audit of Depot-Level Repairable Assets at Selected Army and Navy Organizations. This report evaluates the Army and Navy control and accountability over depot-level repairable (DLR) assets. The value of DLR inventory from the DoD Supply System Inventory Report, September 30, 2001, was about \$47.3 billion. Of the \$47.3 billion, the Army and the Navy accounted for \$24.2 billion (51 percent).

This report is an assessment of actions taken by the Army and Navy to implement recommendations previously reported in IG DoD Report No. 97-014, "Control Over the Return of Repairable Assets," and Naval Audit Service Report No. N2000-0007, "Recording Onhand Quantities of Aviation Depot Level Repairable Inventories at Commercial Contractor Repair Facilities." The IG DoD report states that the Army did not adequately account for repairable assets in commercial repair facilities and in an Air Force storage depot. The Naval Audit Service report states that the Navy did not implement an effective inventory accuracy program, to include monitoring in-transit inventory for aviation DLRs at commercial contractors, and that there was inadequate oversight to ensure that inventory balances recorded in inventory control point supply records were accurate.

The Army and the Navy had taken actions to improve procedures and controls to account for DLRs. However, management needed to address several issues to further improve DLR accountability. The Army had not fully implemented the DoD-wide Commercial Asset Visibility system to improve DLR accountability at commercial contractor repair facilities and did not fully account for Communications-Electronics Command DLR inventory stored in a Defense Logistics Agency (DLA) storage depot. The Navy did not properly monitor DLR in-transit inventory. As a result, the Army had no assurance that \$2.7 billion of its DLR inventory at commercial contractors was properly accounted for, the Communications-Electronics Command had unrecorded inventory gains and losses of approximately \$356.5 million, and Navy in-transit inventory was not effectively controlled. Unrecorded and uncontrolled inventory is vulnerable to loss, obsolescence, and theft. The Army also incurred unnecessary storage costs for obsolete and excess inventory stored in the DLA depot system. The deployment of the Commercial Asset Visibility system, reconciliations of inventory records, and physical inventories of items would further improve Army and Navy accounting for DLRs and correct the material weakness identified by this audit.

REPORT NO. D-2003-101. Law Enforcement Support Office Excess Property Program. The report discusses the management of the 1033 Program that provides excess property to Federal and State law enforcement activities. We performed this audit in response to a referral made by the General Accounting Office (GAO) to the Defense Hotline. GAO requested that we perform further review and reconciliation of transactions that it partially analyzed during a review of DoD excess property donations, including those made under the 1033 Program.

Law Enforcement Support Office (LESO) and Defense Reutilization and Marketing Service (DRMS) records were not reliable to account for DoD excess property issued from

October 1996 through August 2000 through the 1033 Program. We selected 148 transactions from the GAO-provided DRMS Automated Information System (DAISY) transaction records and the Counter-Narcotics Management Information System transaction records. Of the selected 148 excess property transactions, 39 (26 percent) could be reconciled between the approval records in the Counter-Narcotics Management Information System database and the issue records in the DAISY database. The remaining 109 transactions (74 percent) could not be reconciled between the two databases.

- o 66 transactions (45 percent) had undocumented differences between the transaction quantities of property LESO approved for release and the transaction quantities the Defense Reutilization and Marketing Office issued.

- o 31 transactions (21 percent) had missing LESO transaction approval records.

- o 12 transactions (8 percent) had data entry errors in LESO transaction approval records as compared to Defense Reutilization and Marketing Office issued property transactions.

As a result, DRMS was distributing DoD excess property to law enforcement agencies without the accountability necessary to ensure that the property issued was authorized. The Defense Logistics Agency could improve the reliability and accountability of property records for the 1033 Program, and correct the material management control program weakness, by implementing guidance that includes written standard operating procedures and by requiring that LESO use the automated processing system for requisitioning, approving, and issuing items.

REPORT NO. D-2003-108. Allegations Concerning the Egyptian Navy Frigate Program.

This report explains the importance of detailed performance requirements in administering Foreign Military Sales cases so that Foreign Military Financing grants are spent appropriately. The audit was performed in response to a complaint made to the Defense Hotline. The complainant alleged mismanagement of the Foreign Military Financing funds used for the Egyptian Navy Frigate program. Specifically, the complainant alleged that funds were inappropriately spent to hire retired Egyptian Navy officers, rebuild personal office space, pay for trips to the United States, and work on the Egyptian presidential yacht.

As stated in the allegations, we determined that Naval Sea Systems Command approved the use of Foreign Military Financing funds to hire retired Egyptian Navy officers, to rebuild office space, and for trips to the United States; however, those actions were not inappropriate. We determined that Naval Sea Systems Command also approved the use of Foreign Military Financing funds to replace sets of boiler tubes on the Egyptian presidential yacht. Although questionable, we found no criteria to support that the expense was prohibited by either the law or the contract. Naval Sea Systems Command management controls have improved since the time of this action and thus appear to be adequate.

PART II

PARTICIPATION ON MANAGEMENT ADVISORY TEAMS AND SPECIAL AUDIT/EVALUATION EFFORTS

Summary of the Office of the Deputy Inspector General for Auditing - Participation on Management Advisory Teams

(Area Code 703 unless otherwise indicated)

Acquisition Governance Board—DoD Charge Cards (DAVID STEENSMA, 604-8903)

*Lead Components: Under Secretary of Defense for Acquisition, Technology, and Logistics and
Under Secretary of Defense (Comptroller)*

Army Intermodal and Distribution Platform Management Integrated Process Team

(RON HODGES, 604-9592)

Lead Component: Army G-4 (Logistics) Support Activity

Business Management Modernization Program (DAVID STEENSMA, 604-8903)

Lead Component: Under Secretary of Defense (Comptroller)

Commercial Activities Inventory Integrated Process Team (HENRY KLEINKNECHT, 604-9324)

*Lead Components: Under Secretary of Defense for Acquisition, Technology, and Logistics and
Under Secretary of Defense for Personnel and Readiness*

Defense Acquisition Policy Working Group (JOHN MELING, 604-9091)

Lead Component: Under Secretary of Defense for Acquisition, Technology, and Logistics

Defense Environmental Safety and Occupational Health Policy Board

(BILL GALLAGHER, 604-9270)

Lead Component: Under Secretary of Defense for Acquisition, Technology, and Logistics

DLA/Honeywell Strategic Supplier Alliance Relationship (HENRY KLEINKNECHT, 604-9324)

*Lead Components: Deputy Under Secretary of Defense (Acquisition Reform) and
Defense Logistics Agency*

DoD A-76 Integrated Process Team (ANELLA OLIVA, 604-9323)

Lead Components: Under Secretary of Defense for Acquisition, Technology, and Logistics

Federal Information Security Management Act Information Assurance Integrated Process Team
(WANDA SCOTT, 604-9049)

Lead Component: Assistant Secretary of Defense (Command, Control, Communications, and Intelligence)

Mechanization of Contract Administration (MOCAS) Integrated Process Team

(JIM KORNIDES, 614-751-1400 x211)

Lead Components: Under Secretary of Defense for Acquisition, Technology, and Logistics and Under Secretary of Defense (Comptroller)

Office of Coalition Provisional Authority (OCPA), Management Liaison Cell

(DON BLOOMER, 604-8863)

Lead Component: Under Secretary of Defense (Comptroller)

Past Performance Integrated Process Team (BOBBIE SAU WAN, 604-9259)

Lead Component: Under Secretary of Defense for Acquisition, Technology, and Logistics

Single Process Initiative Management Team (DEBORAH CARROS, 604-9217)

Lead Component: Defense Contract Management Agency

Summary of the Office of the Deputy Inspector General for Auditing - Participation in Special Audit/Evaluation Efforts

Audit Committees:

Defense Advanced Research Projects Agency (DAVE VINCENT, 604-9109)
Defense Commissary Agency (DAVE VINCENT, 604-9109)
Defense Contract Audit Agency (PAUL GRANETTO, 604-9101)
Defense Finance and Accounting Service (PAUL GRANETTO, 604-9101)
Defense Information Systems Agency (RICHARD BIRD, 604-9102)
Defense Logistics Agency (PAUL GRANETTO, 604-9101)
Defense Security Service (BRIAN FLYNN, 604-9489)
Defense Threat Reduction Agency (LEON PEEK, 604-9587)
Missile Defense Agency (DAVE VINCENT, 604-9109)
National Reconnaissance Office (LEON PEEK, 604-9587)

Federal Audit Executive Council Multi-Agency Working Groups:

Government Wide Financial Statements (RICHARD BIRD, 604-9102)

Joint Audit Planning Groups:

Acquisition Program (MARY UGONE, 604-9002)
Base Realignment and Closure (BRAC) (KEITH WEST, 604-9202)
BRAC Education & Training Joint Cross Service Group (JCSG)
(KENNETH VAN HOVE, 604-9564)
BRAC Headquarters & Support Activities JCSG (RON HODGES, 604-9592)
BRAC Industrial JCSG (DENNIS PAYNE, 604-8907)
BRAC Medical JCSG (MIKE JOSEPH, 757-872-4698)
BRAC Supply and Storage JCSG (TILGHMAN SCHRADEN, 604-9186)
BRAC Supply and Storage JCSG Working Group (TILGHMAN SCHRADEN, 604-9186)
BRAC Technical JCSG (BRUCE BURTON, 604-9071)
Construction, and Installation Support (DEBORAH CULP, 604-9335)
Contracting Oversight (KEITH WEST, 604-9202)
Quality Assurance Planning Group (KEITH WEST, 604-9202)
Joint Credit Card Audit Planning Group (JOE DOYLE, 604-9349)
Environment (BILL GALLAGHER, 604-9270)
Health Care and Human Capital (MIKE JOSEPH, 757-872-4698)
Information Technology Resources (WANDA SCOTT, 604-9049)
Intelligence (CHARLES SANTONI, 604-9051)
Logistics (TILGHMAN SCHRADEN, 604-9186)